

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current and previously issued FIRs are available on the NM Legislative Website (www.nmlegis.gov) and may also be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

SPONSOR Varela & Sapien ORIGINAL DATE _____ LAST UPDATED _____ HB 173

SHORT TITLE Additional Funding Formula Units SB _____

ANALYST Gudgel

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY16	FY17		
	See Fiscal Implications		

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Not Received From
Public Education Department (PED)

SUMMARY

Synopsis of Bill

House Bill 176, for the Legislative Finance Committee, amends the Public School Finance Act to increase the multiplier for the at-risk index calculation of the public education funding formula from 0.106 in FY16 to 0.114 in FY17. This change has the effect of directing more resources to school districts and charter schools that serve at-risk students.

FISCAL IMPLICATIONS

The bill does not have an appropriation. The bill would increase program units approximately 1,875 units in FY17. Generally, an increase in program units generated by school districts or charter schools that is not accompanied by an appropriation has the effect of diluting the unit value, impacting school districts and charter schools statewide. LFC staff estimates it will cost approximately \$7.5 million in FY17 to fully fund the units generated by the bill, based on the preliminary unit value established for FY15.

SIGNIFICANT ISSUES

The state equalization guarantee (SEG), also known as the "funding formula," is used to distribute money to public schools. About 90 percent of public school operational revenue is derived through the formula. The formula, designed to guarantee each public school student equal access to programs and services appropriate to educational need despite geographic location or local economic conditions, is enrollment-driven with weighted factors for school and district size, teacher qualifications, students' special needs, and other circumstances. Membership weighted for such factors generates a program unit. The number of units generated by all students statewide is divided into the annual program cost to determine the unit value. School districts may spend formula dollars according to local priorities; however, they must comply with statutory requirements and relevant PED directives.

For FY15, New Mexico will allocate more than \$2.5 billion through its public school funding formula to 89 school districts and almost 100 charter schools to serve more than 330 thousand students. On initial implementation, New Mexico's funding formula was nationally recognized as a success in providing equitable public education funding. More than 40 years later, the funding formula still provides comparatively equal access to funding, but it has been amended more than 90 times to reflect changes in public school policy and finance. Recent budget challenges, analysis, and studies by various groups have highlighted acute formula problems.

Three recent independent studies have made a series of recommendations to either implement a new formula or adjust the existing formula and all have recommended directing increased funding to serve the state's most at-risk students. As part of the Funding Formula Study Task Force, the American Institutes for Research published "An Independent Comprehensive Study of the New Mexico Public School Funding Formula" (2008). The study recommended including higher factors for students in poverty or not fluent in English. In November, 2011, a joint study evaluating the public school funding formula by the LFC and Legislative Education Study Committee also recommended allocating higher funding for at-risk students. In 2012, the Maddox Foundation of Hobbs, New Mexico commissioned researchers from Syracuse University to conduct a funding formula review. This study also argued for higher funding for at-risk students. Changes proposed in this bill result from further analysis of the public education funding formula and the three aforementioned studies.

At-Risk Funding. The current formula places little weight, as compared with other components and other states' formulas, on the additional costs associated with educating at-risk students. Currently, approximately 3 percent of total public education funding is directed to serve the state's at risk students, identified based on English language status, Title I status, and mobility.

Deming, Gadsden, and Hatch generate some of the lowest per-student funding from the state's funding formula but serve some of New Mexico's most disadvantaged students. Studies estimating the additional cost necessary to serve at-risk students vary and range up to 48 percent. Previous LFC evaluations have identified the state's largest achievement gap is highly influenced by poverty and language status, regardless of ethnicity or race. Typically, additional costs are associated with the need for extended learning time and intervention services, among others. For the current school year, an additional 9.15 percent of funding will be distributed to school districts and charter schools to serve each student identified as at-risk. For FY16, this amount will increase to 10.6 percent, still significantly lower than other states. The bill will increase funding allocated to school districts and charter schools for at-risk students by almost 12.3 percent by FY20.

**Selected States' Incremental Funding
for At-Risk Students**

State	Additional Funding Provided per At-Risk Student
Minnesota	50%
Georgia	30%
Texas	25%
Vermont	25%
South Carolina	25%
Missouri	25%
Oregon	25%
Connecticut	25%
Maine	20%
Louisiana	19%
Michigan	12%
Hawaii	10%
New Mexico	9%
Mississippi	5%

Source; Verstegen and Jordan, 2009

PERFORMANCE IMPLICATIONS

The bill will improve student performance by strategically allocating funds toward the state's most at-risk students. Research has shown that at-risk students need increased intervention and time in the classroom, and more resources would allow districts to invest in programming such as interventionists, instructional coaches, extended learning time, and other instructional strategies that will close the achievement gap.

ADMINISTRATIVE IMPLICATIONS

Changes to the funding formula are minor and should be minimal to implement. Changes proposed in the bill will not become effective until the FY17 school year, giving PED ample time to make changes to the funding formula.

RSG/je